

Message Text

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SUBJ: IMF MISSION COULD SPUR LIBERALIZATION OF KOREA'S ECONOMY

REF: SEOUL 0329

SUMMARY: UPCOMING NEGOTIATIONS FOR A NEW IMF STANDBY AGREEMENT WITH KOREA, SCHEDULED TO BE CONDUCTED BY A MISSION TENTATIVELY DUE HERE FEBRUARY 5, OFFER AN EXCELLENT OPPORTUNITY TO SUGGEST THAT THE ROKG MAKE COMMITMENTS FOR A BROAD-GUAGED LIBERALIZATION OF KOREA'S ECONOMIC AND FINANCIAL SYSTEMS. PROSPECTS FOR PROGRESS IN THE AREAS OF TRADE LIBERALIZATION APPEAR ESPECIALLY GOOD. WE RECOMMEND THAT, AS APPROPRIATE, THE DEPARTMENT ENCOURAGE THE IMF TO MAKE LIBERALIZATION IN GENERAL, AND TRADE LIBERALIZATION, IN PARTICULAR, A MAJOR FOCUS OF THIS MISSION. END SUMMARY.

1. AN IMF MISSION, TENTATIVELY DUE TO ARRIVE IN KOREA ON FEBRUARY 5, IS EXPECTED TO NEGOTIATE A NEW STANDBY AGREEMENT. (THE LAST STANDBY LAPSED ON JUNE 30, 1976 AND THE ROKG AND THE IMF SUBSEQUENTLY AGREED TO DELAY A NEW STANDBY TILL NOW IN ORDER TO PUT IT AND FUTURE STANDBY NEGOTIATIONS ON A CALENDAR YEAR BASIS.)

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WE BELIEVE THE TIMING OF THIS MISSION OFFERS AN EXCELLENT OPPORTUNITY TO SUGGEST THAT THE ROKG MAKE FIRM COMMITMENTS FOR A BROAD-GUAGED LIBERALIZATION OF ITS ECONOMIC AND FINANCIAL SYSTEMS.

2. THE SPECTACULAR 1976 ECONOMIC PERFORMANCE OF THE KOREAN ECONOMY HAS BOTH BUOYED THE CONFIDENCE OF

KOREAN ECONOMIC POLICYMAKERS AND RESTORED A COMFORTABLE CUSHION FOR NEW POLICY INITIATIVES. WE HAVE OBSERVED A GROWING CONSENSUS IN INFORMED ECONOMIC AND FINANCIAL CIRCLES OVER THE PAST FEW MONTHS THAT KOREA'S ECONOMIC CIRCUMSTANCES NOW BOTH PERMIT AND NECESSITATE CONSIDERATION OF FUNDAMENTAL REFORMS DESIGNED TO ESTABLISH A MARKEDLY MORE OPEN AND MARKET-ORIENTED ECONOMIC SYSTEM BY 1981, THE FINAL YEAR OF THE FOURTH FIVE YEAR PLAN. RANGED AGAINST THIS OPINION, HOWEVER, IS THE DEEPLY INGRAINED PENCHANT OF MANY KOREAN BUREAUCRATS FOR DIRECT CONTROLS. A RESOLUTE POSTURE BY THE IMF MISSION COULD BE EXTREMELY HELPFUL TO THE PROPONENTS OF LIBERALIZATION (LED BY DPM NAM DUCK-WOO WHO MADE TRADECLIBERALIZATION A MAJOR POINT IN HIS PRESIDENTIAL BRIEFING BEING REPORTED SEPTEL) IN PRESSING FOR BOLDER AND MORE RAPID ACTION.

3. TRADE LIBERALIZATION IS OBVIOUSLY AN AREA OF PARAMOUNT INTEREST FOR THE U.S. AS WELL AS KOREA'S OTHER TRADING PARTNERS. (A) WE BELIEVE IT IS NOW POSSIBLE FOR THE IMF TO OBTAIN COMMITMENTS ON A TIMETABLE FOR DISMANTLING THE IMPORT LICENSING SYSTEM, WITH THE FIRST PHASE TO OCCUR THIS YEAR. (B) AS A CONCEPT, KOREA'S NEW TARIFF STRUCTURE (SEE REFTL) WAS INTENDED AS A LIBERALIZING MEASURE, BUT THE CONCEPT WAS SERIOUSLY VIOLATED BY SETTING THE CENTRAL OR "UNITARY" RATE AT 20 PERCENT. IT SHOULD BE POSSIBLE TO GET A COMMITMENT TO REDUCE THIS CENTRAL RATE TO AT LEAST 10 PERCENT, AND POSSIBLY LOWER. (C) SERIOUS LIMITED OFFICIAL USE

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THINKING IS ALSO BEING GIVEN TO LIBERALIZATION IN SUCH VARIED AREAS AS FOREIGN EXCHANGE CONTROLS, INVESTMENT POLICIES AND THE DOMESTIC FINANCIAL SYSTEM. IT MAY NOT BE REALISTIC TO EXPECT ANY SUBSTANTIAL PROGRESS IN THESE AREAS IN THE NEAR TERM, BUT JUDICIOUS USE OF IMF INFLUENCE COULD GET A FIRM COMMITMENT AND PROBABLY PUSH THE TIMETABLE FORWARD AS WELL.

4. WE HAVE KEPT IN CLOSE TOUCH WITH THE IMF RESIDENT REPRESENTATIVE WHO WE BELIEVE SHARES OUR VIEWS. IT WOULD, HOWEVER, BE VERY USEFUL IF THE DEPARTMENT COULD, AS APPROPRIATE, REVIEW ITS ASSESSMENT OF THE ECONOMIC SITUATION AND PROSPECTS HERE AND ENCOURAGE THE IMF TO MAKE LIBERALIZATION OF KOREA'S FINANCIAL AND ECONOMIC SYSTEMS A MAJOR FOCUS OF THE UPCOMING MISSION AND STANDBY AGREEMENT NEGOTIATIONS. NOTE: BECAUSE OF OCCASIONAL SENSITIVITY OVER THE DEGREE TO WHICH WE EXCHANGE VIEWS WITH THE RESIDENT IMF REPRESENTATIVE,

PLEASE DO NOT MENTION, PARTICULARLY TO THE IMF, THAT
WE HAVE DISCUSSED THIS QUESTION WITH THE RESIDENT
REPRESENTATIVE.
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